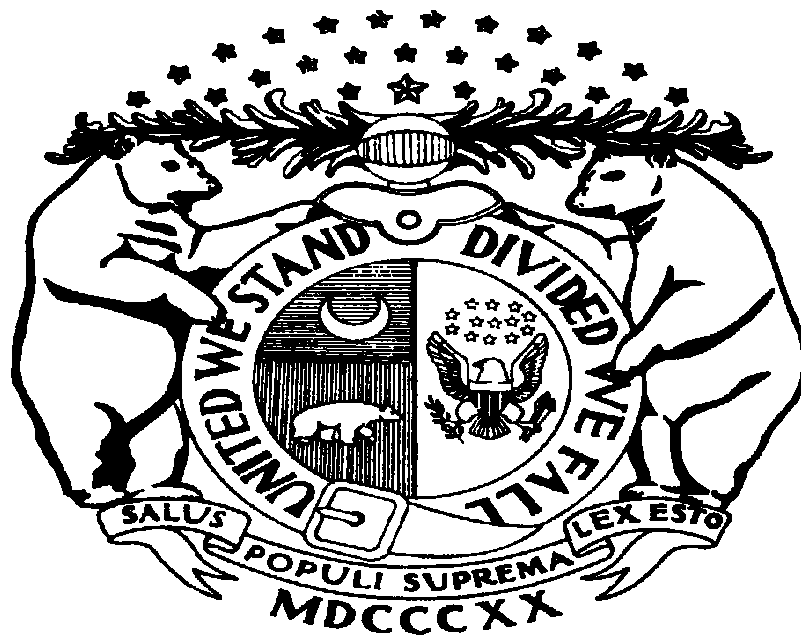


REPORT OF
ASSOCIATION FINANCIAL EXAMINATION

**SAVERS PROPERTY AND CASUALTY
INSURANCE COMPANY**

AS OF
DECEMBER 31, 2002



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	2
PERIOD COVERED.....	2
PROCEDURES.....	2
COMMENTS-PREVIOUS EXAMINATION	3
HISTORY	9
GENERAL.....	9
CAPITAL STOCK	9
DIVIDENDS	10
MANAGEMENT	10
CONFLICT OF INTEREST	12
CORPORATE RECORDS.....	12
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS.....	12
SURPLUS DEBENTURES.....	12
AFFILIATED COMPANIES	13
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	13
ORGANIZATIONAL CHART	13
INTERCOMPANY TRANSACTIONS	14
FIDELITY BOND AND OTHER INSURANCE.....	18
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	19
STATUTORY DEPOSITS	19
DEPOSITS WITH THE STATE OF MISSOURI.....	19
DEPOSITS WITH OTHER STATES.....	20
OTHER.....	20
INSURANCE PRODUCTS AND RELATED PRACTICES.....	21
TERRITORY AND PLAN OF OPERATIONS.....	21
POLICY FORMS AND UNDERWRITING	22
ADVERTISING & SALES MATERIAL	22
TREATMENT OF POLICYHOLDERS	22
REINSURANCE.....	23
GENERAL.....	23
ASSUMED	23

CEDED	23
ACCOUNTS AND RECORDS.....	26
INDEPENDENT AUDITOR	26
INDEPENDENT ACTUARY	27
GENERAL	27
FINANCIAL STATEMENTS	29
ASSETS	30
LIABILITIES, SURPLUS AND OTHER FUNDS	31
STATEMENT OF INCOME	32
CAPITAL AND SURPLUS ACCOUNT.....	32
NOTES TO THE FINANCIAL STATEMENTS.....	33
EXAMINATION CHANGES.....	33
GENERAL COMMENTS AND/OR RECOMMENDATIONS	33
SUBSEQUENT EVENTS	34
ACKNOWLEDGMENT.....	36
VERIFICATION	36
SUPERVISION.....	36

Southfield, Michigan
March 11, 2004

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Jim Poolman, Commissioner
North Dakota Department of Insurance
Midwestern Zone Secretary

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Savers Property and Casualty Insurance Company

hereinafter referred to as such, as the "Company" or as "Savers". Its administrative office is located at 11880 College Boulevard, Suite 500, Overland Park, Kansas 66210, telephone number (913) 339-5000. The primary location of the books and records is located at 26600 Telegraph Road, Southfield, Michigan 48034, telephone number (248) 358-1100. This examination began on November 17, 2003, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior comprehensive financial examination of Savers Property and Casualty Insurance Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination of the Company covers the period from January 1, 2000, through December 31, 2002, and has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information and workpapers supplied by the Company's independent auditors, PricewaterhouseCoopers LLP, of Detroit, Michigan, for its audit covering the period from January 1, 2002 through December 31, 2002. Information relied upon included narrative descriptions of internal controls and cash confirmations.

Comments-Previous Examination

Listed below are comments and recommendations of the previous examination report dated as of December 31, 1999, the Company's response, and the findings in the current examination.

Corporate Records

Comment: Pursuant to the Bylaws, the board of directors have authority to designate two or more committees. The board did not designate any committees; instead, the board substituted the work of the investment committee of its parent and approved such on a quarterly basis. However, the board did not pass a resolution transferring this responsibility to the board of directors of its parent. The Company is directed to operate according to the provisions of its Bylaws.

Company's Response: Meadowbrook Insurance Group, Inc. (MIGI) has an investment policy which regulates the investment activity of MIGI and its insurance subsidiaries. MIGI retains an outside Investment Advisor and an outside Investment Manager to carry out the investment policy. Each quarter, the Investment Advisor and the Investment Manager prepare an analysis of all investments. The investment transactions are then reviewed and approved by the MIGI Investment Committee. Commencing with the second quarter of 1999, the board of directors of Savers reviews and approves the investment transactions of the MIGI Investment Committee. Therefore, a separate resolution to transfer this authority is not necessary.

Current Finding: The Company's Bylaws do not require the actual establishment of an Investment Committee. In addition, several of the directors of Savers are also members of the MIGI Investment Committee, and the transactions, including the analysis of investments prepared by the Investment Manager and Investment Advisor, are approved by the Savers board of directors. Therefore, a separate resolution authorizing the MIGI Investment Committee to handle the investment transactions of the Company does not appear necessary.

Intercompany Transactions

Comment: The Company is party to a management services agreement with an affiliate that requires advance payments for the services that are provided under the agreement. At the end of each calendar quarter, the fee may be adjusted based upon the costs and expenses of each program under the agreement. The Company has not been consistent in performing the quarterly adjustment with the Manager as called for in the agreement. The Company is directed to perform the quarterly adjustment so as to ensure that any excess payment to the Manager is recouped.

Company's Response: It is agreed that the settlement of intercompany transactions in previous years were not always settled on a timely basis. During 1999-2000, intercompany reconciliation and settlement procedures have been established to ensure timely settlement of all intercompany balances.

Current Findings: The settlement adjustment relating to the management services agreement was timely performed.

Intercompany Loans

Comment: The Company is in violation of Missouri Insurance Holding Company Law Section 382.195(1) (Transactions within a holding company system) which requires prior approval of the Director of the MDI before intercompany loans are granted. The Company made loans to its parent that met or exceeded the minimum threshold without obtaining the required prior approval. The Company should be aware that violations of this section of the law could trigger RSMo Section 382.265 (Penalties for violations). The Company is directed to make the required filing to be in compliance with the law. In addition, the Company is directed to handle all aspects of its related party transactions with full and adequate consideration of the applicable laws.

Company's Response: Generally, the Company advises the MDI of reportable transactions either through a Form D, Form B or an amendment thereto. In this context, the Company's Department responsible for these filings was not made aware of the subject loans so as to make the required filings. The Company has made its employees aware of the relevant statutory provisions associated with intercompany loans and has advised employees of the statutory thresholds wherein prior approval from the MDI is required. If such thresholds are met or exceeded, the Company will file the required forms with the MDI.

Current Findings: There were no intercompany loans occurring subsequent to the issuance of the prior examination report during the current examination period.

Comment: For intercompany loans not meeting the statutory minimum as provided for in RSMo Section 382.195(1), the Company should document the terms of the loan in the form of an agreement, including interest rate, length of the loan, patterns of payment, etc. This is necessary to comply with the provisions of RSMo Section 382.190(1) (Transactions with affiliates) which provides that the terms of transactions between insurers and affiliates must be fair and reasonable. The Company is directed to draw up a loan agreement specifying the terms of the loan without regard to the amount of the loan.

Company Response: The Company will document each transaction with regard to the terms and conditions of loans, which will include loan amount, term, repayment terms and interest rate.

Current Findings: There were no intercompany loans made subsequent to the issuance of the prior examination report during the current examination period.

Comment: The Company did not disclose the intercompany loans in the Registration Statement filed with the MDI as required by RSMo Section 382.110(3) (Filing of registration statement). The Company is advised to disclose any intercompany loans on all future Registration Statement filings.

Company's Response: To the extent required, the Company will include intercompany loan information in its Registration Statement or any amendment thereto.

Current Findings: There were no intercompany loans made subsequent to the issuance of the prior examination report which the Company would have been required to report on its Registration Statement.

Comments: The intercompany loans made to the sole shareholder were not disclosed in the General Interrogatories of the Annual Statement as required by question number 8(a)-Part ii, loans to the stockholders. The Company should ensure that only accurate responses are reported in the Annual Statements.

Company's Response: The Company will assure correct answers to the General Interrogatories of its Annual Statement.

Current Findings: Only one loan was made by the Company to its sole shareholder during the current examination period. This loan was made in May of 2000 prior to the issuance of the prior examination report. The loan was properly disclosed in the 2000 Annual Statement General Interrogatories.

Cost Sharing

Comment: The Company shares the cost of a variety of related expenses with its parent without the benefit of a cost sharing agreement. This practice is contrary to RSMo Section 382.195.1(4), which stipulates that an insurer may not enter into cost-sharing arrangements with any member within a holding company system without notification of the Director of MDI. The Company is directed to execute a cost sharing agreement and file it with the Director of the MDI in accordance with Missouri Law.

Company's Response: It is the Company's contention, that the Management Services Agreement between itself and its ultimate parent, MIGI, already contains adequate cost sharing provisions.

Current Findings: Although the Company's Management Services Agreement does contain cost sharing provisions, there were numerous transactions noted between the Company and its direct parent which did not appear to fall within the cost sharing provisions. See the Intercompany Transactions section of this report for recommendations.

Fidelity Bond and Other Insurance

Comment: The Company's fidelity bond coverage limit of \$900,000 is below the suggested NAIC minimum liability limit of \$1,000,000. The Company is directed to obtain additional fidelity bond coverage to comply with the minimum liability, and to periodically review the sufficiency of its fidelity bond coverage.

Company's Response: Effective January 3, 2001, the Company increased its fidelity bond to \$1 million per occurrence, in accordance with NAIC guidelines. The Company will periodically review this issue so as to maintain compliance.

Current Findings: The fidelity bond coverage carried by the Company as of December 31, 2002, was within the NAIC suggested guidelines.

Insurance Products and Related Practices

Comment: Savers has not filed the legally required forms under Missouri Insurance Regulation 20 CSR 200-10.200 for the appointment of Missouri Rural Services Corporation (MRSC) as an MGA. Savers is directed to comply with this regulation.

Company's Response: The Company only granted claims authority to MRSC to expedite the handling of physical property damage losses for the benefit of policyholders. The Company did not intend to convert MRSC from an agent to an MGA. Regardless, the Company has terminated all claims authority of MRSC.

Current Findings: The Company terminated the claims authority of MRSC in 2001; therefore, MRSC no longer qualifies as an MGA.

Ceded Reinsurance

Comment: Insolvency clauses contained in several of the reinsurance agreements entered into during the examination period were not in compliance with Missouri Regulation 20 CSR 200 – 2.100(11)(A) (Credit for Reinsurance). The Company is directed to ensure that reinsurance agreements are in compliance with Missouri statutes and regulations.

Company's Response: During the examination, various reinsurers were contacted to inform them that certain reinsurance contracts were not in compliance. The Company has had all such contracts modified to comply with Missouri regulations.

Current Findings: Insolvency clauses for the reinsurance agreements in effect as of the exam date were in compliance with current regulations.

Accounts and Records

Comments: The Company violated Missouri Regulation 20 CSR 200-4.010(4) (Time Limits) which stipulates that an insurer shall provide, within five (5) working days, any records requested by financial examiners during on-site financial examination. The Company is directed to abide by this Regulation during future examinations. In addition, the Company should complete and submit all related questionnaires prior to the commencement of examination fieldwork.

Company's Response: The Company understands the importance of providing requested records to the financial examiners within five (5) working days. The Company will ensure this rule is abided by during future examinations. Because prior exam questionnaires were not available, the completion of questionnaires was more difficult. Copies of the questionnaires and all other documents pertaining to the examination will be kept in the Accounting Department to ensure that timely responses are made during future examinations.

Current Findings: Company personnel responded to requests for information made by MDI examiners during the current examination timely and efficiently.

Comments: The Company is advised to follow its procedures for tracking unclaimed property funds. The Company is further advised to reclassify all such funds into aggregate write-ins for liabilities-unclaimed property, and forward such funds to the affected states in accordance with the applicable laws of such states.

Company's Response: Failure to reclassify the old outstanding checks to the escheat liability was an oversight resulting from staff turnover. The Company did, however, report and remit balances due to various states.

Current Findings: Old outstanding checks were properly reclassified as unclaimed property and properly forwarded to states as required.

Information Systems Environment

Comments: The Company should continue its efforts in automating application receipts, rating and policy issuance to ensure timely processing of new business policies.

Company's Response: The Company did not formally respond to the prior comment.

Current Findings: The Company has completed the systems automation noted in the prior examination which has allowed for timelier processing of new business policies.

Comments: The Company needs to have in place a current disaster recovery plan that covers network servers that are housed locally. The Company should also periodically revise and test the plan.

Company's Response: The Company's ultimate parent, MIGI, has created a Business Continuity Planning Committee. Currently, this committee is updating all Company plans and documentation.

Current Findings: The Company currently has a reasonably comprehensive and current disaster recovery/business recovery plan covering local servers.

Financial Statements

Comments: Several differences to the financial statements were found during the examination which were considered to be immaterial on an individual basis but may be material on an aggregate basis. Savers' management should address each difference and resolve the underlying problems as communicated to the Company.

Company's Response: All differences referenced in the Management Letter prepared by the examiners were distributed to the appropriate department heads for a response and action plan.

Current Findings: In general, the differences to the financial statements and problems communicated to the Company as a result of the prior examination were corrected.

Provision for Reinsurance

Comments: As of December 31, 1999, two Lloyd's Syndicates, were not approved in the State of Missouri. The Company incorrectly reported these two reinsurers as 'authorized' and improperly reported a reserve credit without any collateral.

Company's Response: A copy of the comment was provided to the MIGI Reinsurance Department to ensure that the proper classification of Lloyd's Syndicates is made in the 2000 Annual Statement.

Current Findings: The two Lloyds Syndicates noted in the prior comment became admitted in Missouri during the third quarter of 2000. One unauthorized reinsurer was improperly classified as authorized in the current exam; however, the amount ceded to this reinsurer was not material.

Subsequent Events

Comments: The Company owns a real estate investment in Cerritos, California that is occupied by an affiliate, Crest Financial Corporation (Crest). Savers is advised to draw up a lease agreement with the affiliate-occupants and file the agreement with the MDI.

Company's Response: Savers operated under the terms of the prior lease through its termination on December 31, 2000. A new lease agreement has been prepared between Savers and Crest and will be provided to the MDI for review and approval.

Current Findings: The Company obtained a lease agreement with Crest for the rental of the property, and the lease agreement was filed and approved by the MDI in August of 2001. However, it was noted, the terms of the lease agreement relating to subleasing were not being followed. See the Intercompany Transaction section of this report for recommendations.

HISTORY

General

Savers Property and Casualty Insurance Company was incorporated on December 17, 1985, as a stock casualty insurance company, and was granted authority pursuant to the provisions of Missouri Law at Chapter 379 (Insurance other than life) to commence the business of insurance effective January 28, 1986.

Savers was owned by Franklin Insurance Holdings, Inc. prior to being sold to Star Insurance Company in 1990. Star Insurance Company, (the parent or Star), is a Michigan domiciled property and casualty insurer, which is wholly owned by the Meadowbrook Insurance Group, Inc. (MIGI).

Capital Stock

Savers Property and Casualty Insurance Company is one hundred percent (100%) owned by Star Insurance Company. As of December 31, 2002, the Company had authority

to issue 2,500,000 shares of \$1 par value common stock. All of the 2,500,000 shares were issued and outstanding for a balance of \$2,500,000 in the Company's capital stock account at December 31, 2002.

Dividends

The dividend history of the Company since its acquisition by Star is as follows:

<u>Years</u>	<u>Amount</u>
Acquisition to 1999	\$5,200,000
2000	2,800,000
2001	5,000,000
2002	-0-
Total	\$13,000,000

Management

The management of the Company is vested in a Board of Directors that are elected by the sole shareholder. The Company's Articles of Incorporation specify that the total number of directors shall be nine. The directors of Savers Property and Casualty Insurance Company elected and serving as of December 31, 2002, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Robert S. Cubbin, Chairman Birmingham, Michigan	Chief Executive Officer and Chairman of the Board Meadowbrook Insurance Group, Inc.
Kenn R. Allen South Lyon, Michigan	President Meadowbrook Insurance Group, Inc. Agencies
Joseph C. Henry * Troy, Michigan	President Meadowbrook Insurance Group, Inc.
Karl W. Koch Shawnee, Kansas	President Savers Property and Casualty Insurance Company
Gregory L. Wilde Troy, Michigan	Senior Vice President Meadowbrook Insurance Group, Inc.

Archie S. McIntyre Troy, Michigan	Senior Vice President – Business Development Meadowbrook Insurance Group, Inc.
Merton J. Segal Bloomfield Hills, Michigan	Chairman and President Meadowbrook Insurance Group, Inc.
Karen M. Spaun Farmington Hills, Michigan	Treasurer and Chief Accounting Officer Meadowbrook Insurance Group, Inc.
Randolph W. Fort West Bloomfield, Michigan	Senior Vice President Meadowbrook Insurance Group, Inc.

*Resigned his position and was replaced by Henry J. Abbott effective March 31, 2003.

The Company's Bylaws stipulate that the Board of Directors shall elect a President, one or more Vice Presidents, a Secretary, a Treasurer, one or more Assistant Secretaries and one or more Assistant Treasurers as officers of the Company. The officers elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Title</u>
Robert S. Cubbin	Executive Vice President
Joseph C. Henry *	Chief Executive Officer
Karl W. Koch	President
Karen M. Spaun	Vice President and Treasurer
Michael Gerard Costello	Senior Vice President, General Counsel and Secretary
Archie S. McIntyre	Vice President
Kenn R. Allen	Vice President
Randolph W. Fort	Vice President
Josephine D. Duco	Assistant Vice President and Assistant Treasurer
Douglas Young	Assistant Vice President and Assistant Secretary
Michael E. O'Shea	Assistant Vice President and Assistant Secretary

*Resigned his position and was replaced by Robert Cubbin effective March 31, 2003.

Conflict of Interest

The Company has procedures which require that all officers and directors complete a conflict of interest statement annually. Signed statements of officers and directors were reviewed for the period under examination and no material conflicts were indicated.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. No amendments were made to the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Company's board of directors and shareholder meetings were reviewed and, in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

The management of the Company's ultimate parent is considering the feasibility of forming a reinsurance pool that would include Savers and other insurance affiliates. See the Subsequent Events section of this report for details.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

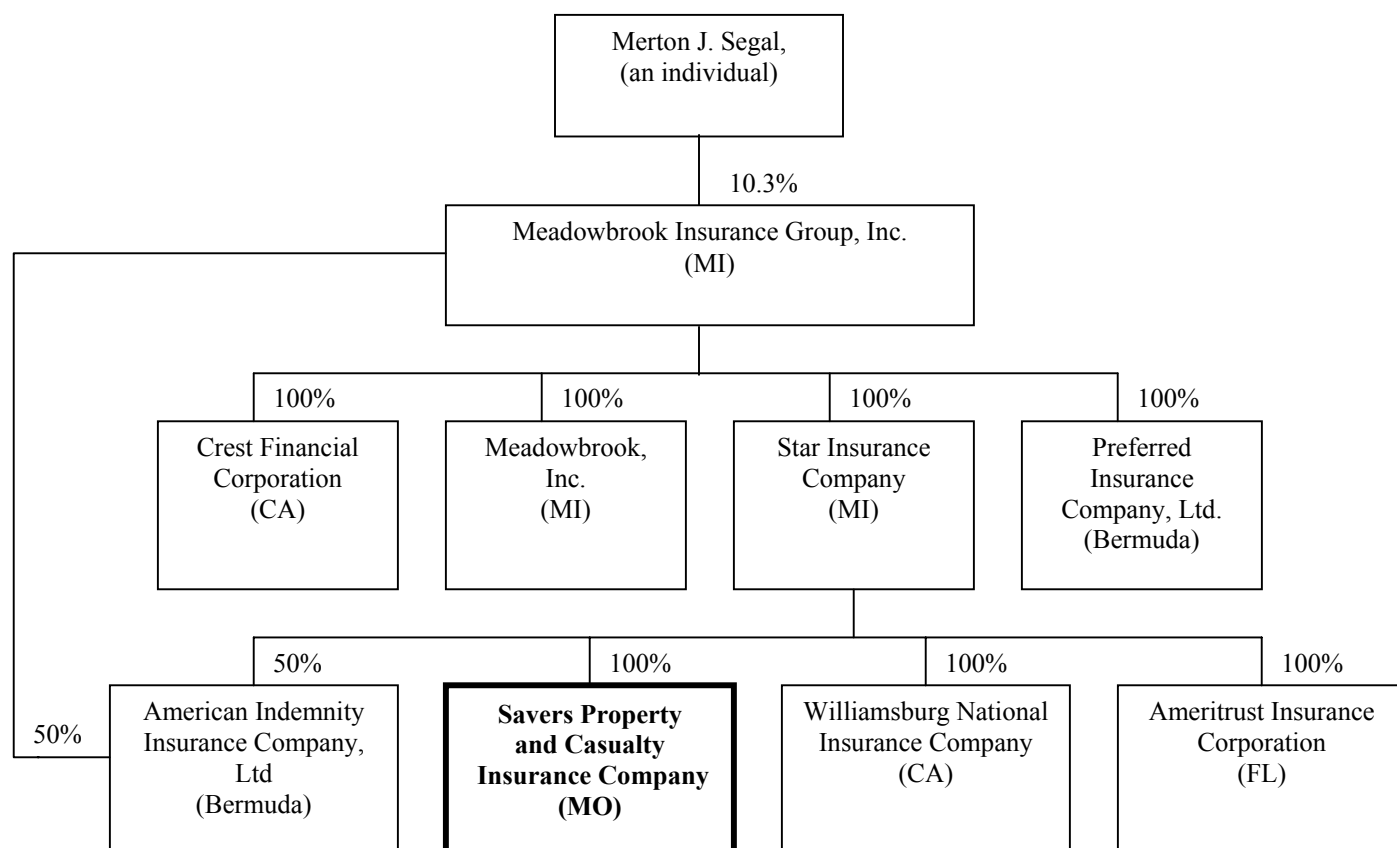
Holding Company, Subsidiaries and Affiliates

Savers Property and Casualty Insurance Company is wholly owned by Star Insurance Company, and is a member of an insurance holding company system as defined by RSMo Section 382.010 (Definitions). Star Insurance Company in turn, is a wholly owned subsidiary of Meadowbrook Insurance Group, Inc., (MIGI) an insurance holding company. An Insurance Holding Company System Registration Statement was filed by MIGI on behalf of Savers and the other insurance entities within the holding company system for each year under examination. MIGI is a publicly traded entity and Merton J. Segal, its Chairman and Chief Executive Officer, owned 10.3 percent of its equity as of December 31, 2002. Consequently, Merton J. Segal, an individual, is the ultimate controlling person within the holding company system.

Organizational Chart

MIGI is a publicly traded entity listed on the New York Stock Exchange. Other than Merton J. Segal, no other shareholder has more than 9 percent ownership of the holding company. The remaining 89.7 percent is owned by numerous shareholders.

The following organizational chart depicts the applicable portion of the holding company group, including Savers as of December 31, 2002:



Intercompany Transactions

Savers has entered into the following intercompany agreements:

1. Type: Management Services Agreement
- Parties: Meadowbrook Insurance Group, Inc., along with its wholly owned subsidiaries including Savers and Meadowbrook, Inc. (Manager)
- Effective: Agreement was originally effective January 1, 1998, and was to remain in effect through December 31, 2002. The agreement was amended in October 2001, and subsequently, a new agreement was entered into effective January 1, 2003. The October 2001, amended agreement and the January 1, 2003, agreement are essentially the same except as noted below.
- Terms: The Manager shall provide the following services to Savers: accounting, financial statements and tax returns, accounts receivable,

deposits, accounts payable, reports and records, underwriting, reinsurance, investments, claims, claims administration, claims expenses, claims reports, and loss prevention. In consideration of the services rendered by the Manager, Savers will pay such fee as is agreed between the parties hereto and applicable to each of Savers' programs on an individual basis in consideration of the costs and expenses incurred, and as specified in an attached addenda. The amount of the fees described shall be payable monthly in advance. At the end of each calendar quarter, the fee may be adjusted based upon the costs and expenses of each program.

The agreement which became effective January 1, 2003, included additional language to clarify the allocation methods for joint expenses such as information services, audit, legal and actuarial services incurred on behalf of the various parties to the agreement. In addition, the language in the fee section which referred to the fee schedule attachment was deleted. The new fee section simply states that the Company shall pay the Manager a fee based on actual costs and expenses incurred with regard to the individual programs administered by the Manager for the Company; such fees shall be no greater than the actual costs the Company would expend in providing the service for itself. The fee shall be payable monthly.

2. Type: Amended Agency Agreement
 - Parties: Original agreement was between Savers and Meadowbrook, Inc. A subsequent agreement effective January 1, 2003, is between Meadowbrook, Inc. and its agency affiliates and the insurance affiliates of MIGI including Savers.
 - Effective: Original agreement was effective October 1, 1994. A subsequent agreement was entered into effective January 1, 2003.
 - Terms: Meadowbrook, Inc. has authority to write business under guidelines approved by Savers up to a limit set by Savers. Meadowbrook, Inc. receives commission based on the rates indicated in a schedule in the agreement. The subsequent agreement effective January 1, 2003, added the agency affiliates of Meadowbrook, Inc. as parties to the agreement.
3. Type: Tax Allocation Agreement
 - Parties: Meadowbrook Insurance Group, Inc. and its subsidiaries
 - Effective: December 31, 1985

Terms: Each entity will calculate its tax liability on a stand-alone basis and pay the amount to MIGI. Thereafter, all settlements will be made in thirty (30) days, unless MIGI is receiving a refund. In a refund situation, the settlements will be made within thirty (30) days of receipt of refund.

4. Type: Lease Agreement

Parties: Savers Property and Casualty Company and Crest Financial Corporation (Crest)

Effective: January 1, 2001

Terms: Savers agrees to lease to Crest an office building located in Cerritos, California owned by Savers. Rent is due in advance on the first day of the month. The rent amount shall be \$331,476 per year, and shall increase at a rate of 5% annually after the first year. Crest may, but only with the prior written consent of Savers, assign the lease for any unexpired term or sublet the premises or any part thereof. However, no such assignment or subletting shall relieve Crest of any of its obligations under the lease, and any such assignment or subletting shall be subject to the lease. Savers shall maintain the property and liability insurance for the premises. In addition, Savers shall pay all property taxes on the premises and shall provide and/or pay for water, gas, electricity, fuel, light, heat, power, and sewer and janitorial services.

Exception: Effective February 1, 2001, part of the building was subleased to SBC Services, Inc. (SBC). The sublease agreement was made directly between Savers and SBC, and SBC makes the lease payments directly to Savers. The rent paid by Crest to the Company is reduced by the amount of rent paid by SBC. This arrangement is in direct conflict with the lease agreement between the Company and Crest which states the entire building shall be leased to Crest and that although Crest can sublet part of the building, subletting shall not relieve Crest of any of its obligations under the lease. The Company is directed to ensure that the lease agreement is complied with, or amend the agreement to reflect the actual sublease arrangement.

5. Type: Loan Agreement

Parties: Meadowbrook Inc. and the insurance subsidiaries of Meadowbrook Insurance Group, Inc. including Savers.

Effective: April 30, 2001

Terms: Meadowbrook, Inc. is authorized to advance monies in its control to the other parties to the agreement. Meadowbrook, Inc. shall determine the amount of funds to be advanced, the debtor to receive the funds and the creditor that will advance the funds. The amount of funds advanced, at any one time, by any creditor plus the amounts previously advanced and not yet repaid to that same creditor; or the amount of funds to be received at any one time, by any debtor plus the amounts previously received by that same debtor and not yet repaid, shall not exceed the lesser of 3% of either the creditor's or the debtor's admitted assets or 25% or either creditor's or debtor's policyholder surplus as of the preceding December 31st. Any advance made pursuant to the agreement shall be settled and paid by the debtor and creditor on a monthly basis. The debtors are to pay interest on the funds advanced at a rate equal to the prime rate charged by Comerica Bank as determined on the first business day of the month in which the advance was made. However, interest shall accrue and be charged by the creditor only after the last day of the next month following the month in which the advance was made. There have been no advances or loans made under this agreement during the examination period.

The amounts (paid) to and received from parent and affiliates during the period under examination were as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Management Service Agreement Fees:			
Payment to Meadowbrook, Inc.	(\$4,812,486)	(\$5,370,826)	(\$5,083,601)
Amended Agency Agreement:			
Payment to Meadowbrook, Inc.	(34,658)	(47,297)	(55,176)
Lease Agreement:			
Payment from Crest Financial Corp.	285,077	287,026	257,887
Tax Allocation Agreement:			
Payment to MIGI	(193,577)	(500,317)	-0-
Dividend Payment:			
Paid to Sole Shareholder (Parent)	<u>-0-</u>	<u>(5,000,000)</u>	<u>(2,800,000)</u>
Net Amount (Paid) or Received	<u>(\$4,755,644)</u>	<u>(\$10,631,414)</u>	<u>(\$7,680,890)</u>

Savers and its direct parent, Star Insurance Company, deal with many of the same reinsurers, agents, third party administrators and other service providers. As a result, both

companies are named either jointly or as part of the Meadowbrook Insurance Group, Inc. on various agreements with these other entities. Numerous intercompany transactions were noted as occurring between Star and Savers relating to these agreements during the examination period. Several transactions occurred which were reimbursements and/or settlements of reinsurance recoverables received from reinsurers or premiums received from agents by either Star or Savers on behalf of both companies. Instances were also noted where joint costs, such as contingent commissions and investment management fees, were paid either by Star or Savers on behalf of both companies and settled through the intercompany transactions. There is no intercompany agreement between Star and Savers to cover these transactions. The Company is directed to either ensure that transactions are handled on a direct basis between Savers and its agents, reinsurers and other service providers or to obtain a written agreement with Star covering the joint transactions. Such agreement should be submitted as a Form D filing to the MDI for prior approval in accordance with Section 382.195 RSMo. (Transactions Within a Holding Company System).

FIDELITY BOND AND OTHER INSURANCE

The Company's direct parent, Star Insurance Company, has a financial institution bond that covers itself and its subsidiaries, including Savers. The bond provides fidelity coverage with a limit of \$1,500,000 and a \$25,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company is also a named insured on various other insurance policies purchased by its ultimate parent, Meadowbrook Insurance Group, Inc. These additional

policies include, but are not limited to, the following: commercial property, umbrella liability, errors and omissions, directors and officers liability and employee practices.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Savers Property and Casualty Insurance Company has no direct employees. Services are provided to the Company by employees of Meadowbrook, Inc. in accordance with the provisions of a management services agreement that is explained in greater detail in the Intercompany Transactions section of this report.

Meadowbrook, Inc. provides a variety of standard benefits to its employees, which include, but are not limited to, health coverage, life insurance, short and long-term disability insurance, vacation and sick leave, tuition reimbursement and a 401 (K) profit sharing plan.

The Company appears to have properly accounted for its liabilities for employee benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 379.098 (Securities deposits). The funds on deposit as of December 31, 2002, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,400,000	\$2,663,867	\$2,417,868
Municipal Bonds	<u>200,000</u>	<u>199,717</u>	<u>199,717</u>
Totals	<u>\$2,600,000</u>	<u>\$2,863,584</u>	<u>\$2,617,585</u>

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit as of December 31, 2002, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arkansas	Corporate Bonds	\$200,000	\$216,306	\$200,000
Louisiana	U.S. Treasury Note	100,000	116,281	104,385
Massachusetts	Various	12,045,000	12,863,156	12,251,806
New Hampshire	Various	550,000	578,288	554,496
New Jersey	Various	300,000	319,206	307,310
New Mexico	Government Bond	100,000	108,625	103,708
New York*	Various	2,346,200	2,486,691	2,372,702
Oklahoma	Political Subdivision Bond	200,000	200,000	207,794
South Carolina	Government Bond	<u>325,000</u>	<u>381,570</u>	<u>336,769</u>
Totals		<u>\$16,166,200</u>	<u>\$17,270,123</u>	<u>\$16,438,970</u>

*The funds deposited with the State of New York are required to be held in a trust fund in the United States of America for the protection of United States policyholders on policies written in states where the Company does business as an unauthorized insurer pursuant to Section 1404(a)(1) and (2) of the New York Insurance Law.

Other

The Company also has funds on deposit with reinsurance trusts under two reinsurance trust agreements and with the Federal Reserve Bank of St. Louis pursuant to

the requirements of the Longshore and Harbor Workers' Compensation Act. Those funds on deposit as of December 31, 2002, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Government Bond	\$1,400,000	\$1,509,816	\$1,410,526
Political Subdivision Bond	500,000	499,945	499,945
U.S. Treasury Note	<u>200,000</u>	<u>232,562</u>	<u>208,770</u>
Totals	<u>\$2,100,000</u>	<u>\$2,242,323</u>	<u>\$2,119,241</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

Savers Property and Casualty Insurance Company is licensed by the State of Missouri Department of Insurance under RSMo Chapter 379 (Insurance other than life), to write the business of property and casualty. As of December 31, 2002, the Company was also licensed in the states of Illinois, Kansas, Maine and Massachusetts. In addition, the Company operates on a surplus lines or non-admitted basis in the District of Columbia, and each state except in those jurisdictions where full licensure has been obtained.

The Company has specialized in writing insurance programs for professional trade groups including: appraisers, educators, municipalities, marketing centers, lawyers and livestock associations. The Company's direct lines of business include fire, allied lines, commercial multiple peril, inland marine, medical malpractice, workers compensation, other liability, products liability, commercial auto liability and auto physical damage. As of December 31, 2002, commercial multiple peril, workers compensation and other liability lines represented approximately 93.6% of aggregate direct written premiums. The

underlying programs for the primary lines of business include commercial multiple peril marketed to small Missouri municipalities, workers compensation marketed mainly in the eastern United States, and the other liability lines comprised largely of professional educators coverage. The Company exited the professional educators market in 2001 and subsequently reentered the market in 2003.

The Company has numerous agency agreements with independent agencies and brokers to produce business, including an agreement that names several affiliates as agents. In 2002, approximately 96.7% of the Company's business was produced by three unaffiliated agencies, individually representing the Company's major programs of commercial multiple peril, workers compensation, and professional educators liability. In 2002, the business of the Company was concentrated in the states of Missouri and Massachusetts, which accounted for approximately 59.6% and 30.5% of direct written premiums, respectively.

Policy Forms and Underwriting
Advertising & Sales Material
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff which performs a review of these issues and generates a separate market conduct report. The last Market Conduct Examination [Report #0113-04-PAC] dated June 20, 2001, reviewed the period from January 1, 2000 to December 31, 2000. The report reviewed both the Company and Star Insurance Company. A cursory review of this report indicated that the Company was fined by the MDI for various violations of Missouri insurance laws and regulations. The violations and resulting fines appear to have had an immaterial impact on the financial condition of the Company.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination are as follows:

<u>Premiums:</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Direct Business	\$24,417,306	\$32,191,957	\$28,066,918
Reinsurance Assumed:			
Non-Affiliates	1,586,670	(295,610)	3,802
Reinsurance Ceded:			
Affiliates	(2,499,770)	(3,595,977)	(3,805,454)
Non-Affiliates	<u>(5,939,278)</u>	<u>(14,242,301)</u>	<u>(10,740,853)</u>
Net Premiums Written	<u>\$17,564,928</u>	<u>\$14,058,069</u>	<u>\$13,524,413</u>

Assumed

The Company participates in the Massachusetts and National Workers' Compensation Pool. The Company has no other assuming reinsurance agreements or arrangements.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the agreement.

In order to take advantage of economies of scale and allow for convenience and flexibility when individual affiliates choose to introduce additional insurance programs, it is the practice of the Meadowbrook Insurance Group, Inc. to obtain reinsurance contracts

which list all or some of its affiliated insurance companies as named parties. As a result, Savers is named on numerous reinsurance contracts on which it does not actively participate. Significant reinsurance contracts to which Savers is a party and actively participates are described as follows.

Savers is a named reinsured on three separate property excess per loss reinsurance agreements and a property excess catastrophe reinsurance agreement. These agreements cover property risks classified primarily as commercial multiple peril business written under the Company's Missouri Public Entity Program (MOPED). Motors Insurance Corporation, Hannover Ruckversicherungs AG, and various Lloyd's Syndicates participate at different percentages on the agreements. The excess per loss agreements each provide a separate layer of coverage. Under the first layer of coverage, the retention is \$250,000, and the reinsurers are liable for \$750,000 each risk with a liability limit of \$2,250,000 for any one loss occurrence. Under the second layer, the retention is \$1,000,000, and the reinsurers are liable for \$1,000,000 each risk with a liability limit of \$2,000,000 for any one loss occurrence. Under the third layer, the retention is \$2,000,000, and the reinsurers are liable for \$3,000,000 each risk with a liability limit of \$3,000,000 for any one loss occurrence. The excess catastrophe agreement provides four layers of coverage of: \$1,250,000 excess of \$750,000, \$3,000,000 excess of \$2,000,000, \$5,000,000 excess of \$5,000,000 and \$10,000,000 excess of \$10,000,000. Annual limits are equal to twice the applicable per occurrence limit for each layer.

Savers is a named reinsured on three separate per occurrence casualty excess reinsurance agreements. These agreements cover liability and casualty risks classified primarily as commercial multiple peril and other liability casualty lines of business written

under the MOPED and the Educators Professional Liability Program (Educators). The agreements provide for two layers of coverage with an additional third layer of clash coverage. For the first two layers, Employers Reinsurance Corporation (ERC) participates 35%, with ALEA London Limited, Converium Limited and various Lloyd's Syndicates (Lloyd's) collectively participating 65%. For the third layer Clash coverage, ERC also participates 35%, with Federal Insurance Company (Federal) participating 65%. Under the first two layers, the Company retains \$250,000 per occurrence and the reinsurers' collective limit is \$1,750,000 per occurrence. The Lloyd's agreement also requires an additional aggregate retention equal to 10% of net written premium. The cessions are limited to \$2,000,000 policy limits. The third layer of clash coverage provides an additional \$3,000,000 of coverage in excess of the \$2,000,000 underlying retention. Annual aggregate limits are the greater of 35% of \$20,000,000 or 400% of annual earned premium for ERC; \$15,000,000 or 400% of developed premium for Lloyd's; and \$6,000,000 for Federal.

ERC also provides umbrella protection under a commercial umbrella liability excess of loss agreement which covers commercial umbrella policies marketed primarily under the MOPED program. The policies are limited to \$2,000,000 per occurrence and \$2,000,000 annual aggregate. Under the first layer of the agreement, the reinsurer is liable for 95% of the first \$1,000,000 per loss occurrence and 100% of the second \$1,000,000 per loss occurrence.

The Company has a reinsurance program consisting of seven layers for its workers compensation policies sold primarily under the Renaissance Program. ERC assumes 100% of the first and second layers and 75% of the third and fourth layers. American National

Insurance Company (American National) assumes the remaining 25% of the third and fourth layers. American National and Lloyd's Syndicate 1400 participate in the fifth and sixth layers, assuming 60% and 40%, respectively. Several reinsurers participate in varying percentages on the seventh layer. The program provides for a \$300,000 per occurrence retention, with the reinsurers providing seamless excess coverage up to \$50 million per occurrence.

Minuteman Insurance Company, Ltd. (Minuteman) is a Bermuda domiciled reinsurance captive which is owned by a group of agents. Savers has an additional quota share reinsurance agreement whereby, the Company cedes a portion of its \$300,000 retention noted in the aforementioned program to Minuteman. Under the agreement, Minuteman assumes 25% share of the Company's retention on the Renaissance Program and a 30% share of the Company's retention on the Building Association of Greater Boston Captive Program.

The Company has a stop loss reinsurance agreement with its parent, Star Insurance Company whereby; Star provides stop loss reinsurance for other liability lines of business. Under the agreement, Star assumes 100% of losses that exceed 50% of net earned premium for the subject lines of business, and Savers receives a 50% ceding commission.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, PricewaterhouseCoopers, LLP, of Detroit, Michigan for all the years in the examination period.

Independent Actuary

The loss reserves as of December 31, 2002 and December 31, 2001 were certified by Christopher Tait, FCAS, MAAA of the Milliman USA, Inc. of Radnor, Pennsylvania. The loss reserves as of December 31, 2000 were certified by Terrence M. O'Brien, FCAS, MAAA, CPCU of PriceWaterhouseCoopers LLP, Chicago, Illinois.

General

The Missouri Department of Insurance engaged the services of a consulting actuary, Jon W. Michelson, FCAS, MAAA of Expert Actuarial Services, LLC, to determine the adequacy of the loss and loss expense adjustment reserves reported by the Company as of the examination date. While the consulting actuary concluded that the reserve amounts reported by the Company were within the reasonable range; they were considered to be within the bottom end of the reasonable range. It was noted the Company's management selected a lower reserve level than its appointed actuary. These adjustments, which are carried out on a consolidated basis for the entire Meadowbrook Insurance Group, translated to carried reserves as of December 31, 2002, for Savers that were roughly 6% lower than the appointed actuarial indicated reserves. Although Company management represented that it believed its appointed actuary was good at listening to explanations and incorporating pertinent information into the reserve calculations, the Company made the adjustments to the estimates derived by the appointed actuary, believing that operation changes (e.g. changes in underwriting, retention, claim reserving, etc.) are not fully reflected in the appointed actuary's estimates. The Company's adjustments are almost always in the direction of lower booked reserves. The Company should ensure that the

appointed actuaries have full knowledge of the important operational and environmental changes affecting the Company's business, and that data is provided to the appointed actuaries as required to make the appropriate adjustments within their actuarial analysis. The Company's reported reserves should then reflect the amounts determined by the appointed actuaries.

The Company owns real estate in the form of an office building in Cerritos, California, which is leased to an affiliate. The latest appraisal on the real estate was performed in November of 1997, prior to the purchase of the building. The Company did not complete Schedule A – Part 1 of its 2002 Annual Statement properly in that no amount was reported for the fair value of the real estate owned. In addition, the Company failed to disclose in the Notes to the Financial Statements the basis on which the fair value of the real estate was determined as required by the NAIC Annual Statement Instructions.

Pursuant to SSAP No. 40 (Real Estate Investments), the fair value of real estate shall be defined as the price a property would bring in a competitive open market under all conditions requisite to a fair sale. If market quotes are unavailable, estimates of fair value shall be determined by an appraisal which shall be no more than five year old. The Company is advised to obtain a current appraisal of the building. In addition, the Company should ensure that the Annual Statement is properly completed with respect to real estate owned.

The Company reported a reserve credit for amounts held in a reinsurance trust account on behalf of amounts ceded to Minuteman Insurance Company, Ltd. It was noted the reinsurance trust agreement with Minuteman did not meet all of the requirements of Missouri Regulation 20 CSR 200-2.100 (8) (Credit for Reinsurance). Specifically, the trust

agreement stipulates that the trustee must notify the grantor and beneficiary within 45 days of any deposits to or withdrawals from the trust account, and the trust agreement allows for the trustee to charge fees and expenses against the assets of the account. Missouri Regulation 20 CSR 200-2.100 (8) stipulates that the trustee must notify the grantor and beneficiary within 10 days of transactions and that the trust agreement must prohibit the invasion of the trust corpus for the purpose of paying compensation to the trustee. Although no adjustment was made in the current examination to the reserve credit claimed for Minuteman, the Company should amend the reinsurance trust agreement so that it is in compliance with provisions of CSR 200-2.100 (8). Failure to do so may affect the admissibility of future reserve credits.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2002. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements". (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There were additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements when evaluated on an individual basis. The additional differences were communicated to the Company and should be addressed by Savers management. Appropriate action should be taken to resolve the underlying problems, which led to the examination differences.

Assets

	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$45,781,422		\$45,781,422
Preferred stocks	1,980,000		1,980,000
Real Estate	1,959,003		1,959,003
Cash and short-term investments	3,831,343		3,831,343
Premiums and agents' balances in course of collection	2,160,529	61,012	2,099,517
Premiums, agents' balances and installments booked but deferred and not yet due	2,630,999		2,630,999
Amounts receivable under high deductible policies	66,338	6,634	59,705
Reinsurance recoverable on loss and loss adjustment expense payments	1,000,826		1,000,826
Federal and foreign income tax recoverable and interest thereon	2,128,327	736,452	1,391,875
Guaranty funds receivable or on deposit	64,100		64,100
Interest, dividends and real estate income due and accrued	618,171		618,171
Receivable from parent, subsidiaries and affiliates	784,521		784,521
Aggregate write-ins for other than invested assets:			
Prepaid claims service	880,777	880,777	-0-
Miscellaneous receivables	<u>183,082</u>	<u>-0-</u>	<u>183,082</u>
Total Assets	<u>\$64,069,438</u>	<u>\$1,684,875</u>	<u>\$62,384,564</u>

Liabilities, Surplus and Other Funds

Losses	\$14,423,309
Loss adjustment expenses	5,838,327
Commissions payable, contingent commissions and other similar charges	432,842
Other expenses	238,172
Taxes, licenses and fees (excluding federal and foreign income taxes)	693,420
Unearned premiums	7,745,771
Ceded reinsurance premiums payable (net of ceding commissions)	1,162,153
Provision for reinsurance	139,113
Payable to parent, subsidiaries and affiliates	273,207
Aggregate write-ins for liabilities:	
Deferred ceding commission	20,243
Miscellaneous payables	<u>76,083</u>
Total Liabilities	\$31,042,640
Common stock	2,500,000
Gross paid in and contributed surplus	17,568,926
Unassigned funds (surplus)	<u>11,272,997</u>
Surplus as regards policyholders	<u>\$31,341,923</u>
Total liabilities and surplus	<u>\$62,384,563</u>

Statement of Income

Premiums earned	\$18,305,715
DEDUCTIONS	
Losses incurred	9,039,533
Loss expenses incurred	4,424,067
Other underwriting expenses incurred	<u>8,196,518</u>
Total underwriting deductions	<u>21,660,118</u>
Net underwriting gain/(loss)	(3,354,403)
Net investment income earned	2,889,809
Net realized capital gains or (losses)	<u>(128,995)</u>
Net investment gain or (loss)	2,760,814
Other income	(56,799)
Federal and foreign income taxes incurred	<u>-0-</u>
Net income	<u>(650,387)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2001	\$32,147,265
Net income	(650,387)
Change in net deferred income tax	378,537
Change in nonadmitted assets	(625,711)
Change in provision for reinsurance	92,219
Net change in surplus as regards policyholders for the year	<u>(805,342)</u>
Surplus as regards policyholders, December 31, 2002	<u><u>\$31,341,923</u></u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Lease Agreement with Crest Financial (Page 16)

The Company is directed to ensure that the lease agreement is complied with, or amend the agreement to reflect the actual sublease arrangement.

Intercompany Transactions with Star Insurance Company (Page 17)

The Company is directed to either ensure that transactions are handled on a direct basis between Savers and its agents, reinsurers and other service providers or to obtain a written agreement with Star covering the joint transactions. Such agreement should be submitted as a Form D filing to the MDI for prior approval in accordance with Section 382.195 RSMo. (Transactions Within a Holding Company System).

Loss and Loss Adjustment Expense Reserves (Page 26)

The Company should ensure that its appointed actuaries have full knowledge of the important operational and environmental changes affecting the Company's business, and that data is provided to the appointed actuaries as required to make the appropriate adjustments within their actuarial analysis. The Company's reported reserves should then reflect the amounts determined by the appointed actuaries.

Appraisal of Real Estate (Page 26)

The Company is advised to obtain a current appraisal of its real estate pursuant to SSAP No. 40. In addition, the Company should ensure that the Annual Statement is properly completed in respect to real estate owned.

Reinsurance Trust Agreement (Page 26)

The Company should amend the reinsurance trust agreement with Minuteman Insurance Company, Ltd. so that it is in compliance with the provisions of Missouri Regulation 20 CSR 200-2.100 (8).

SUBSEQUENT EVENTS

As noted in the Intercompany Transactions section of this report, the Company entered into a new Management Services Agreement and a new Agency Agreement effective January 1, 2003. Differences between these agreements and the agreements in effect during the exam date were discussed in that section.

The management of Meadowbrook Insurance Group, Inc. is considering the feasibility of creating a reinsurance pool which would include Savers, its parent, Star Insurance Company and Star's other two insurance subsidiaries, Williamsburg National Insurance Company and Ameritrust Insurance Corporation. Under the proposed agreement, each of the pool participants would cede 100% of their written premiums into the reinsurance pool and assume back a percentage of the total premiums ceded by all of the companies. The exact form of the reinsurance pool and the basis for the percentage which would be ceded back to each participant has not been fully determined. However, a reinsurance pooling agreement has been drafted and discussed with the Insurance Departments of the different states in which the potential participants are domiciled. It will

not be possible to determine the financial effect the agreement will have on Savers unless and until the agreement is finalized.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Savers Property and Casualty Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE and James Smith, examiners for the Missouri Department of Insurance, participated in this examination. The actuarial firm of Expert Actuarial Services, LLP, of St. Louis, Missouri performed an actuarial analysis as part of this examination.

VERIFICATION

State of Missouri)
)
County of)

I, Mark A. Nance, MSA, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Mark A. Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires: _____
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance